



# WEEKLY ECONOMIC DIGEST

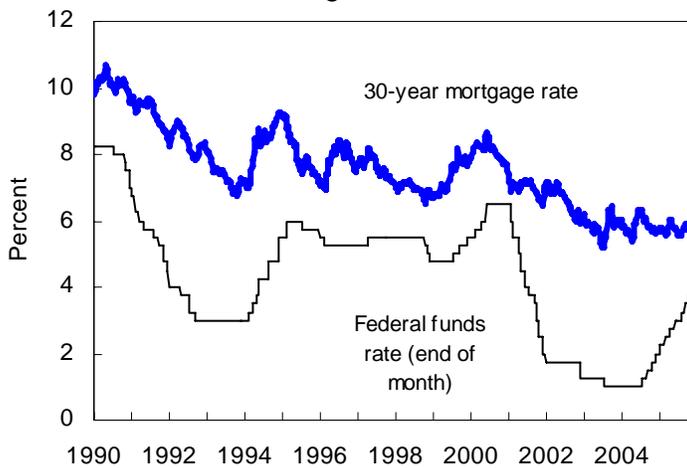


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

October 25, 2005

## Housing Construction Rebounds, Inflation Erodes Workers' Earnings

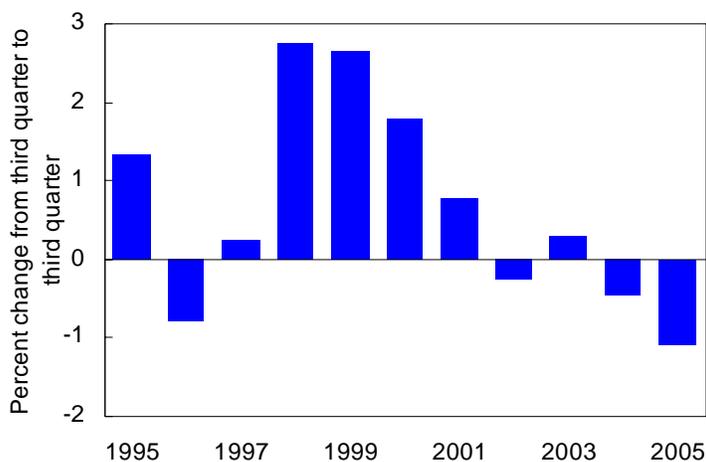
Mortgage Loan Rate and Federal Funds Target Rate



Source: Board of Governors, Federal Reserve System.

Real Median Usual Weekly Earnings

Full-Time Wage and Salary Workers, Aged 16 and Over



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **New residential construction bounced back in September.**

After dropping by 1.2 percent in August, new privately owned housing starts rose by 3.4 percent last month to an annual rate of 2.108 million units. Much of the September rebound stemmed from a 6.9 percent rise in new residential building in the South, following sharp declines in August. Nationwide, housing starts were 10.3 percent higher than a year ago, with building in the northeast more than 25 percent above last year's level. One reason for ongoing housing strength is that mortgage interest rates have remained low despite increases in short-term interest rates by the Federal Reserve (see top chart).

- **Usual weekly earnings grew less than inflation over the past year.**

The median level of usual weekly earnings of full-time wage and salary workers aged 16 years and over rose by 2.7 percent from the third quarter of 2004 to the third quarter of 2005. However, rising energy prices pushed the consumer price index up by nearly 4 percent over the same period. As a result, real (inflation-adjusted) median weekly earnings fell by 1.1 percent (see bottom chart). The decline was larger at lower earnings levels, with real earnings at the 25<sup>th</sup> percentile falling by 3 percent.

- **Financial markets expect another Fed rate hike next week.**

Futures prices for overnight federal funds imply that markets expect the Federal Open Market Committee (FOMC) to once again raise its target for the federal funds rate by ¼ percentage point (to 4 percent) at its November 1 meeting. Reports on sales and employment in September were stronger than was expected in the immediate aftermath of hurricane Katrina. Although the surge in energy prices thus far does not appear to have fed into the underlying rate of inflation, the FOMC appears to believe that maintaining price stability requires further rate increases.

The Economy at a Glance	Sep	Aug	Jul	Jun	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	n.a.	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)	-14.5	2.4	0	10.0	1.3	1.4	3.6	4.5	4.2	0
Capacity Utilization (level, %)	78.6	79.8	79.7	79.8	79.4	79.4	79.3	78.8	78.1	75.5
Civilian Unemployment Rate (level, %)	5.1	4.9	5.0	5.0	5.0	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)	2108	2038	2062	2065	2069	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	-6.2	0.9	4.7	n.a.	1.5	1.0 <sup>#</sup>	4.3 <sup>#</sup>	3.1 <sup>#</sup>	2.4
Retail Sales (% growth)	2.9	-20.2	22.4	24.6	6.7	10.8	6.0	9.8	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	-0.7	-1.1	-0.3	n.a.	0.1	0.5	1.2 <sup>#</sup>	1.5 <sup>#</sup>	2.1
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	15.4	6.2	6.2	0	5.1	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	1.2	1.2	1.5	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)*	—	—	—	—	n.a.	2.4	2.4	3.2	3.9	4.0
Output per Hour (% growth)	—	—	—	—	n.a.	1.8	3.2	2.5	3.4	3.8
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	3.42	3.44	3.22	2.97	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.20	4.26	4.18	4.00	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	3.62	3.50	3.26	3.04	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10533	10554	10545	10487	10544	10382	10648	10362	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **New Residential Home Sales: September 2005** [Release: Thursday, October 27]
- **Advance Report on Manufacturers' Shipments, Inventories, and Orders: September 2005** [Release: Thursday, October 27]
- **Gross Domestic Product (Advance): Third Quarter 2005** [Release: Friday, October 28]
- **Employment Cost Index: September 2005** [Release: Friday, October 28]
- **Personal Income and Outlays: September 2005** [Release: Monday, October 31]